

LOCAL EXCHANGE RATES AND REGULATIONS

4. LOW-INCOME PROGRAMS

The Company, as part of its obligations as an Eligible Telecommunications Carrier, offers two (2) low-income assistance programs. This program, Lifeline Assistance, is offered under the terms and conditions provided below:

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A. Lifeline Assistance

1. General

Lifeline Assistance is a retail service offering available to qualifying low-income subscribers, as provided for below. Lifeline Assistance enables eligible subscribers to pay reduced charges for the following package of services: voice-grade access to the public switched network; voice grade access to the public switched network or its functional equivalent; minutes of use for local service provided at no additional charge to end users; access to the emergency services provided by local government or other public safety organizations, such as 911 and enhanced 911, to the extent the local government in an eligible carrier's service area has implemented 911 or enhanced 911 systems; and toll limitation services to qualifying low-income consumers.

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2. Regulations

a) Unless other eligibility requirements are established by the Commission, Lifeline Assistance is available to all subscribers who participate in one of the following programs: Medicaid; Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps; Supplemental Security Income (SSI); Federal Public Housing Assistance; Low-Income Home Energy Assistance Program (LIHEAP); National School Lunch Program's free lunch program; Temporary Assistance for Needy Families (TANF), or whose household income is below 135% of the Federal Poverty Guidelines for a household of that size.

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b) Each subscriber to Lifeline Assistance must certify in writing to the Company, under penalty of perjury, that she/he receives benefits under a program outlined in sub-paragraph (b) (1), above, and must, on that same document, agree to notify the Company if she/he ceases to participate in the program. The certification form shall conform to the requirements described herein, and shall be made available upon request to any subscriber. The Company shall retain all such subscriber certifications in order to furnish proof of subscriber eligibility as may be required from time to time by Universal Service administrators.

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LOCAL EXCHANGE RATES AND REGULATIONS

4. LOW-INCOME PROGRAMS (CONT'D)

A. Lifeline Assistance (Cont'd)

2. Regulations (Cont'd)

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d) A subscriber may elect at the time of subscription or later to Lifeline Assistance to receive toll limitation as part of Lifeline Assistance. "Toll limitation" is a service that allows a subscriber to elect not to allow the completion of outgoing toll calls from the subscriber's residence.

e) Lifeline Assistance will not be disconnected for non-payment of toll charges, unless the Company first obtains a waiver from the Commission by demonstrating to the Commission that the Company would otherwise incur substantial costs, that the Company offers toll limitation without charge, and that telephone subscribership among low-income consumers. For purposes of this paragraph, a "low-income consumer" is one with an income below the poverty level for a family of four residing in West Virginia. The Company shall follow all applicable notice provisions as established, from time to time, by the Commission, as part of using a waiver, if granted. The Company may apply for waivers as necessary.

f) The Company may not collect a service deposit in order to initiate Lifeline Assistance if the qualifying low-income subscriber voluntarily elects toll limitation from the Company.

3. Lifeline Assistance provides a Federal credit of \$9.25 on the subscriber's monthly service bill.

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Superseding

LOCAL EXCHANGE RATES AND REGULATIONS

4. LOW-INCOME PROGRAMS (CONT'D)

A. Lifeline Assistance (Cont'd)

4. The Company shall apply the baseline payments received by the administrator of the federal Lifeline Assistance program to waive the qualifying customers' federal End-User Common Line Charge. The Company shall apply any additional federal support amount to the qualifying customer's basic local exchange service rate.
5. To be eligible for Lifeline Assistance, qualifying customers must subscribe to the lowest priced, basic local exchange service offering that is made available at the subscriber's domicile.
6. Partial payments that are received from Lifeline customers shall first be applied to local service charges and then to any outstanding toll charges.

B. Link Up

1. General

The Link Up program has been eliminated by the Federal Communications Commission (C)  
effective April 1, 2012. (C)  
(D)

(D)

Issued by authority of an Order of the Public Service Commission of West Virginia in Case No. 12-0423-T-T dated April 17, 2012, effective May 6, 2012.

Issued April 6, 2012

Effective May 6, 2012

Armstrong Telephone Company-West Virginia  
(Corporate Name)

P.S.C. No. 6 Telephone

Section 3

Original Leaf No.

First Revised Leaf No. 15

Original Leaf No. 15

Superseding

LOCAL EXCHANGE RATES AND REGULATIONS

4. LOW-INCOME PROGRAMS (CONT'D)

(D)

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C. All aspects of the Lifeline Assistance program shall be subject to the interpretation of applicable Federal regulations and any directives which may from time to time be prescribed by the Universal Service Administrative Company. These rules are separate and apart from any rules prescribed as part of a state Universal Service program.

Issued by authority of an Order of the Public Service Commission of West Virginia in Case No. 12-0423-T-T dated April 17, 2012, effective May 6, 2012.

Issued April 6, 2012

Effective May 6, 2012



**MOSS ADAMS** LLP  
 Certified Public Accountants | Business Consultants

## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
 Armstrong Telephone Company – West Virginia, Inc.

### **Report on Financial Statements**

We have audited the accompanying financial statements of Armstrong Telephone Company – West Virginia, Inc. (Company), which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of operations, stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

**REPORT OF INDEPENDENT AUDITORS**  
**(continued)**

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Armstrong Telephone Company – West Virginia, Inc. as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mass Adams LLP

Spokane, Washington  
January 14, 2014

**ARMSTRONG TELEPHONE COMPANY - WEST VIRGINIA, INC.**  
**BALANCE SHEETS**

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**ASSETS**

	September 30,	
	2013	2012
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 356,055	\$ 273,734
Subscriber accounts receivable, net of allowance of \$4,320 in 2013 and \$5,328 in 2012	163,524	178,038
Income tax receivable, parent company	-	121,488
Other accounts receivable, net of allowance of \$433 in 2013 and \$874 in 2012	272,904	260,366
Material and supplies	70,505	83,888
Other current assets	42,742	58,484
Total current assets	905,730	975,998
<b>DEFERRED INCOME TAXES</b>	21,723	-
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Telecommunications plant in service	8,694,465	9,637,931
Nonregulated plant in service	293,715	293,715
Telecommunications plant under construction	-	28,916
	8,988,180	9,960,562
Less accumulated depreciation	7,274,830	7,749,909
	1,713,350	2,210,653
	<u>\$ 2,640,803</u>	<u>\$ 3,186,651</u>

**ARMSTRONG TELEPHONE COMPANY - WEST VIRGINIA, INC.**  
**BALANCE SHEETS**

**LIABILITIES AND STOCKHOLDER'S EQUITY**

	September 30,	
	2013	2012
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 187,997	\$ 127,847
Advance billing	127,968	95,092
Related party note payable	1,560,000	2,010,000
Income tax payable, parent company	52,228	-
Other accrued taxes	29,416	22,380
Accrued interest payable	2,663	2,440
Advance payments on construction projects	73,316	-
Other accrued liabilities	162,867	163,211
	<u>2,196,455</u>	<u>2,420,970</u>
<b>OTHER LIABILITIES AND DEFERRED CREDITS</b>		
Deferred income taxes	<u>-</u>	<u>119,587</u>
<b>STOCKHOLDER'S EQUITY</b>		
Preferred stock (\$100 par and liquidation value; 5% cumulative; 325 shares authorized, issued, and outstanding)	32,500	32,500
Common stock (\$100 par value; 825 shares authorized, issued, and outstanding)	82,500	82,500
Retained earnings	329,348	531,094
	<u>444,348</u>	<u>646,094</u>
	<u>\$ 2,640,803</u>	<u>\$ 3,186,651</u>

See accompanying notes.



**ARMSTRONG TELEPHONE COMPANY - WEST VIRGINIA, INC.**  
**STATEMENTS OF OPERATIONS**

	Years Ended September 30,	
	2013	2012
Operating revenues		
Wireline		
Customer	\$ 1,182,220	\$ 1,272,827
Intercarrier		
Interstate	481,110	420,529
Intrastate	181,547	255,568
Universal service support - federal	654,418	636,362
	<u>2,499,295</u>	<u>2,585,286</u>
Internet	<u>75,476</u>	<u>73,741</u>
Miscellaneous		
Equipment	86,680	103,175
Carrier billing and collection	6,096	6,096
Other	46,518	8,020
Directory	44,905	49,542
Uncollectible	<u>(16,051)</u>	<u>(4,391)</u>
	<u>168,148</u>	<u>162,442</u>
Total operating revenue	<u>2,742,919</u>	<u>2,821,469</u>
Operating expenses		
Plant specific operations	624,866	659,004
Plant nonspecific operations	405,024	416,365
Depreciation	478,800	509,626
Customer operations	391,536	414,222
Corporate operations	912,015	1,138,004
Other operating taxes	-	128,191
Nonregulated	<u>79,397</u>	<u>54,901</u>
Total operating expenses	<u>2,891,638</u>	<u>3,320,313</u>
Net operating loss	<u>(148,719)</u>	<u>(498,844)</u>
Nonoperating income (expense)		
Interest and dividend income	16	138
Interest expense	(3,217)	(2,948)
Other nonoperating expense	<u>(29,298)</u>	<u>(354)</u>
	<u>(32,499)</u>	<u>(3,164)</u>
Loss before income taxes	<u>(181,218)</u>	<u>(502,008)</u>
Income tax benefit	<u>(20,528)</u>	<u>105,786</u>
Net loss	<u>\$ (201,746)</u>	<u>\$ (396,222)</u>

**ARMSTRONG TELEPHONE COMPANY - WEST VIRGINIA, INC.**  
**STATEMENTS OF CASH FLOWS**

	Years Ended September 30,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (201,746)	\$ (396,222)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	478,800	509,626
Deferred income taxes	(141,310)	(110,868)
Change in assets and liabilities		
Receivables	123,464	(43,206)
Material and supplies	13,383	(3,903)
Other assets	15,742	(19,237)
Accounts and taxes payable	112,378	(122,837)
Advance billing	32,876	(7,121)
Other accrued liabilities	6,915	(23,381)
Net cash from operating activities	440,502	(217,149)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Advance payments received on construction projects	129,989	-
Net acquisition of property, plant, and equipment	(38,170)	(76,025)
Net cash from investing activities activities	91,819	(76,025)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from related party note payable	-	275,000
Payments on related party note payable	(450,000)	(190,000)
Net cash from financing activities	(450,000)	85,000
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	82,321	(208,174)
<b>CASH AND CASH EQUIVALENTS at beginning of year</b>	273,734	481,908
<b>CASH AND CASH EQUIVALENTS at end of year</b>	<u>\$ 356,055</u>	<u>\$ 273,734</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash paid during the year for		
Interest	\$ 2,994	\$ 6,986
Income taxes	\$ 39,500	\$ 64,900